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SUBPRIME 2.0: ASSESSING THE RISK OF A SIMILAR CRISIS IN INDIA

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ABSTRACT

India's real estate sector has grown rapidly in recent years due to rising housing demand, easy access to loans, and heavy investment in property. While this growth has helped the economy, it also shows signs of risk, similar to the situation in the United States before the 2008 subprime mortgage crisis. This research paper examines current trends in India's housing and loan markets to assess whether the country may face a similar financial crisis. The paper compares India's current situation with the US crisis, focusing on rising property prices, growing household debt, and risky home loans. It also looks at the role of housing finance companies and NBFCs (Non-Banking Financial Companies) in encouraging high-risk lending. If the market slows or property prices fall, many borrowers may be unable to repay their loans, which can cause serious problems for banks and the economy. Using basic concepts from commerce and finance, this study explains the dangers of unregulated lending and the need for better financial checks. The paper concludes with suggestions to avoid a real estate crisis in India, including improving loan regulations, increasing transparency, and promoting responsible borrowing and lending.

1. INTRODUCTION

India's real estate industry has seen tremendous growth over the past few years, driven by strong economic growth, urbanization, and an emerging middle class. Institutional investment in Indian real estate reached a new high of $6.5 billion in 2024, a 22% jump from the previous year, with the industrial and warehousing sectors garnering the highest share at 39%. The residential segment also recorded significant growth, with investments increasing by 46% over 2023 levels. Even with this tremendous growth, red flags are now being raised about possible risks in the housing segment. The Reserve Bank of India (RBI) has flagged alarm over the sharp increase in unsecured loans, notably young borrowers taking personal loans and credit cards to buy aspirational homes. This increase in unsecured borrowing has led to higher delinquencies, raising questions about the overall health of the lending system. In addition, though the luxury residential segment has prospered, contributing nearly 28% of overall sales, the supply of affordable housing remains insufficient to meet demand. The high mortgage rates, coupled with escalating property prices, have made homeownership more difficult for first-time buyers. This gap threatens the sustainability of the housing market boom and the formation of a housing bubble. To address these concerns, the RBI has taken steps, including slashing the key repo rate by 25 basis points to 6.25% in February 2025, to spur economic growth and counter inflation.

2. SUBPRIME MORTGAGE CRISIS USA (2008)

The U.S. subprime mortgage crisis was one of the biggest financial disasters in modern history, leading to the 2008 global financial crisis. It started when banks in the U.S. gave home loans (mortgages) to people with low incomes, poor credit histories, or unstable jobs. These were called subprime borrowers, and their loans were called subprime mortgages because they were considered high risk. The 2007–2008 U.S. subprime mortgage crisis was a severe financial calamity that resulted from banks offering home loans (subprime mortgages) to borrowers with low earnings and bad credit histories. They had high interest rates and usually had teaser rates that substantially increased after several years. Regular banks sold these toxic loans to investment banks such as Lehman Brothers, which packaged them together in intricate financial instruments known as Collateralized Debt Obligations (CDOs). These CDOs were marketed to international investors—pension funds and insurance companies among them—on the strength of spurious credit ratings from agencies such as Moody's and S&P. As an increasing number of subprime borrowers began to default on their loans, the value of CDOs collapsed, causing enormous losses for investors and financial institutions. House prices declined, and a foreclosure wave followed the bursting of the housing bubble. Lehman Brothers, which held one of the most significant stakes in these risky holdings, collapsed into bankruptcy, sending shivers through world markets.

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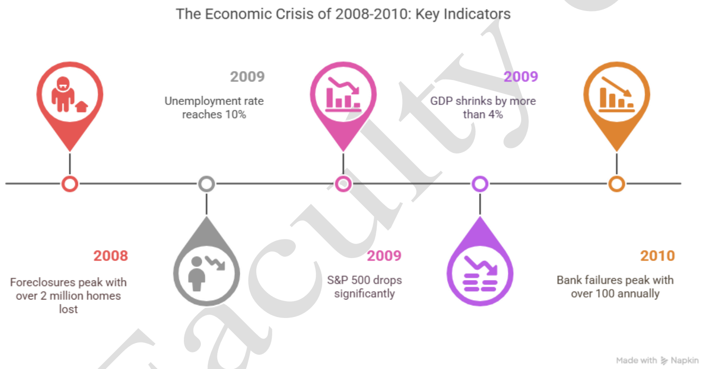
The crisis illustrated how uncontrolled lending, financial innovation, and faulty risk management can contribute to catastrophic economic collapse and serves as a cautionary tale for emerging economies such as India, where real estate is expanding rapidly, and similar trends toward risky lending are taking hold.

3. Fallout of the U.S. Housing Bubble

The U.S. subprime mortgage crisis hit the American economy hard and made numerous companies, particularly those in the financial industry, go bankrupt or become insolvent. The crisis started sometime in 2007 and worsened in 2008. Perhaps the most shocking moment was the bankruptcy of Lehman Brothers, one of the world's largest investment banks. It went bankrupt in September 2008, with assets worth more than $600 billion, the largest bankruptcy in American history. Other large firms collapsed or were rescued. Bear Stearns, another giant investment bank, was on the brink of collapse and was sold to JPMorgan Chase in March 2008 at a very low price. Merrill Lynch suffered massive losses and was taken over by Bank of America to prevent bankruptcy. Insurance giant AIG (American International Group), too, was on the brink of collapse because of its exposure to toxic CDOs and was rescued by the U.S. government with more than $180 billion in assistance. Over 400 banks collapsed in the U.S. between 2008 and 2012 due to the crisis, according to the Federal Deposit Insurance Corporation (FDIC). The crisis led to millions of Americans losing their jobs, and roughly 3 million homes were foreclosed upon between 2007 and 2009. The U.S. stock market also plummeted—the S&P 500 fell by over 50% at its worst.



Graph Explanation

- **Red (2008) – Foreclosures**
- Over **2 million homes** were lost as people couldn't repay their housing loans.
- **White (2009) – Unemployment**
- The **unemployment rate reached 10%**, showing severe job losses across the country.
- **Purple (2009) – S&P 500 Drop**
- The **stock market crashed**, causing huge investment losses and panic in financial markets.
- **Pink (2009) – GDP Decline**
- The **economy shrank by over 4%**, signaling a deep recession and drop in national income.
- **Orange (2010) – Bank Failures**
- Over **100 banks failed** in a single year due to financial instability and bad loans.

4. India's housing market bubble.

"The current state of India's housing market suggests the presence of a speculative bubble."

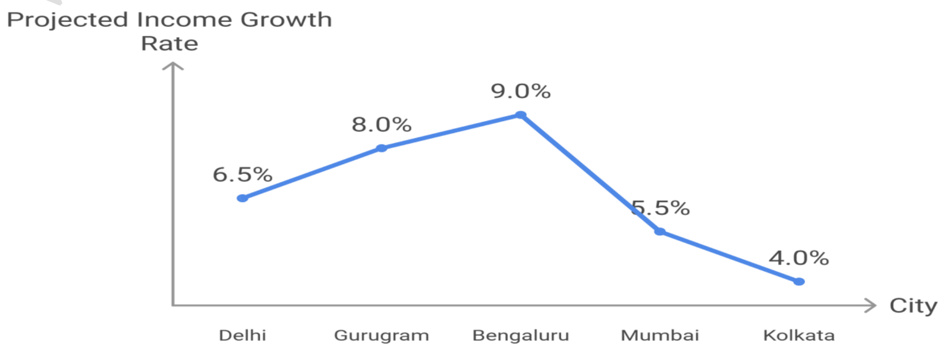
As of April 2025, India's real estate sector is showing signs of stress, and experts warn of a slowdown or crash in the next few years. In the first quarter of 2025, residential sales in the top seven Indian cities declined by 28% year-on-year, primarily due to high property prices and global economic uncertainty. Even with weaker sales, the average property value has risen between 10% to 34%, particularly in the high-end market. This has priced the house out of reach for most people, and hence, many continue to rent.

Decline in Residential Sales in India

While luxury properties are still seeing some demand, affordable housing is experiencing a lull. Most professionals opine that this supply-demand mismatch is not tenable. Real estate advisory companies and market leaders have indicated that if the market does not shift its focus toward affordable housing and consumer-oriented policies, a correction is likely. A few key property consultants have even stated that India's real estate sector might be severely threatened in the coming years by oversupply, weak demand from genuine buyers, and rising household indebtedness. While a full-fledged crash may not come at once, indicators of a slowdown are already apparent.

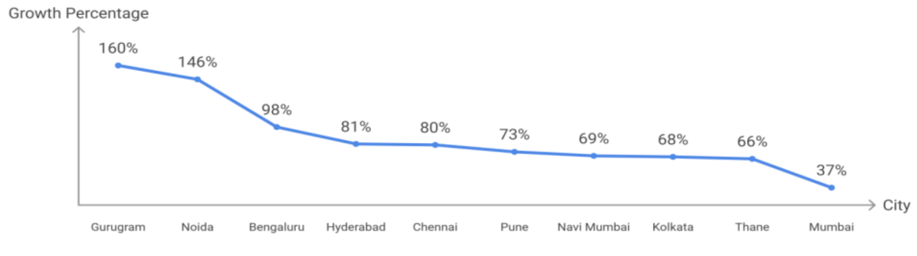
5. INCOME GROWTH IN MAJOR INDIAN CITIES (2020 – 2025)

Between 2020 and 2025, income growth in Indian cities such as Mumbai, Delhi, Bengaluru, Hyderabad, Pune, and Chennai occurred amid widespread challenges, with stark disparities, poor data, and an uneven economic revival, casting a shadow on their economic advance. While Mumbai had a per capita income of ₹5,00,000 in 2024 and a GDP of $310 billion, and Delhi had ₹4,44,768, these statistics hide the reality of extensive urban poverty and black markets in labor that keep vast numbers outside the benefits of rising incomes. Bengaluru, ~10% of India's GDP ($150 billion), and Hyderabad, with a per capita income of ₹2,75,443 in 2023, depend mainly on IT and real estate, which benefit almost exclusively a small, skilled population, with many residents employed in low-paying jobs. Concomitantly, Pune ($69 billion GDP) and Chennai ($78.6 billion GDP) are criticized for income growth that has not alleviated slum growth and poor public services, despite their development of IT and industrial sectors. In India, per capita income doubled from ₹86,647 in 2014–15 to ₹1,72,000 by 2022–23, but in urban areas, which contribute more than two-thirds of GDP, glaring inequities persist, with a minority holding most of the wealth. The absence of detailed, city-level income data for 2020–2025 and the variability of metrics across sources make precise estimates challenging, while the post-COVID recovery (9% growth in 2021) only widened the gap between wealthy urban elites and marginalized communities. Estimated income growth rates of 10–15% for Mumbai and Delhi, and 8–12% for other cities, are thus eclipsed by structural problems such as unemployment, housing shortages, and regional disparities, highlighting the unevenness of urban prosperity.



Projected Income Growth Rates of Indian Cities (2020-2025)

6. HOUSING PRICE GROWTH IN MAJOR INDIAN CITIES (2019–2024): TRENDS, CAGR ANALYSIS, AND KEY INSIGHTS



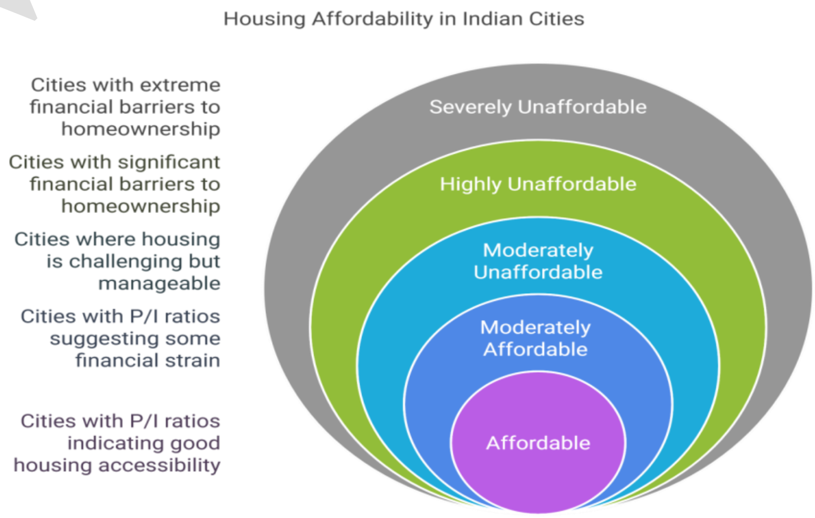
Housing Price Growth in Major Indian Cities (2019-2024)

During the period 2019-2024, major Indian cities saw housing prices appreciate significantly, driven by high demand and market resilience. The maximum appreciation was seen in Gurugram and Noida, with property values increasing by 160% and 146%, respectively, resulting in strong CAGRs of more than 19% per year. Bengaluru, Hyderabad, and Chennai also experienced strong growth. During the years 2020 to 2025, an unprecedented gap formed between income growth and property price appreciation in primary Indian cities. For example, Delhi's per capita income expanded by 39.5%, from ₹3,31,112 in 2020–21 to ₹4,61,910 in 2023–24. On the other hand, residential prices in urban hubs such as Gurugram and Bengaluru rose substantially, with growth rates of 160% and 98%, respectively, over a similar period, corresponding to CAGRs of 21.0% and 14.6%, respectively. Mumbai, even with its high base price, has seen a 37% rise in housing prices (CAGR of 6.5%), which still exceeds real income growth. This divergence signals a widening affordability gap: house prices have risen at a rate of two to four times that of income growth. In contrast, advanced global cities such as New York and London, with high property costs, still show a relatively close correspondence between real estate appreciation and income growth. The figures highlight how, in India, regulatory inefficiencies, infrastructure bottlenecks, and speculative investments have driven property inflation disproportionately to economic progress, rendering home ownership ever more unaffordable for the urban middle class.

7. DETERMINANTS OF THE RECENT SLOWDOWN IN THE PROPERTY SECTOR

7.1 The Price-to-Income (P/I) ratio

The Price-to-Income (P/I) ratio, or the median property price-to-household income ratio, is a standard indicator of the ease with which people can purchase property in a particular city. The higher the P/I ratio, the more affordable the properties are. This paper investigates the P/I ratios of Indian megacities and compares them to international cities to determine affordability patterns and inter-regional differences in homeownership access.



7.2 (P/I) Ratios of Major Indian Cities

City	P/I Ratio	Affordability Category
Mumbai	14.3	Severely Unaffordable
Delhi	10.1	Highly Unaffordable
Hyderabad	7.5	Moderately Unaffordable
Bengaluru	6.0	Moderately Affordable
Pune	5.0	Moderately Affordable
Chennai	6.0	Highly Unaffordable
Ahmedabad	5.0	Relatively Affordable

Indian housing prices in key cities such as Mumbai, Delhi, and Bengaluru are markedly higher relative to incomes than in advanced world cities like New York, London, and Paris. The Price-to-Income (P/I) ratio of Mumbai is 14.3, much higher than New York's 10.0, London's 8.5, and Paris's 7.3, indicating a severe affordability crisis. With lower per capita household incomes, Indian cities have inflated property prices due to various reasons. The main issues there are acute land shortages, poor urban planning, archaic rent-control legislation, and speculative property investments. On the contrary, London and Paris have stricter housing supply regulations, well-organized public transport systems that reach the suburbs, and comparatively superior rental yields, which adjust housing demand and supply. In India, property tends to be more of an investment than a residence, creating artificial demand. Real estate projects lag in coming forward, and mass housing schemes have failed to capture real urban demand to date. Above all, stringent stamp duties, time-consuming clearance procedures, and the absence of open regulation drive the costs higher. In contrast to global cities that offer improved access to mortgages and financial assistance for first-time buyers, Indian homebuyers must contend with high EMI-to-income ratios, rendering homeownership inaccessible to much of the middle class.

8. ANALYSIS OF EMI-TO-INCOME RATIOS IN MAJOR INDIAN CITIES

EMI-to-Income Ratio is a vital affordability measure for housing, representing the proportion of an individual's monthly earnings devoted to paying an Equated Monthly Installment (EMI) on a home loan. It denotes the amount of income an individual devotes to repaying their home loan, and the higher the ratio, the more of an individual's income is spent on loan servicing.

9. CITY-WISE EMI-TO-INCOME RATIOS

9.1 Mumbai

a) **EMI-to-Income Ratio:** 116%

b) **Explanation:** This indicates that residents would need to spend more than their entire monthly income to repay a home loan, suggesting a severe affordability crisis.

9.2 Delhi

a) **EMI-to-Income Ratio:** 82%

b) **Explanation:** In Delhi, the ratio is slightly better but still very high. 82% of the monthly income goes toward the home loan, leaving little room for other expenses.

9.3 Gurugram

a) **EMI-to-Income Ratio:** 61%

b) **Explanation:** Gurugram is also highly unaffordable, with 61% of monthly income going to EMI payments, which is still considered burdensome.

9.4 Hyderabad

a) **EMI-to-Income Ratio:** 61%

b) **Explanation:** Similar to Gurugram, 61% of the income is required to service the home loan, making it moderately unaffordable for residents.

9.5 Ahmedabad

a) **EMI-to-Income Ratio:** 41%

b) **Explanation:** In Ahmedabad, the ratio drops significantly to 41%, suggesting it is more affordable to buy a home relative to income.

9.6 Chennai

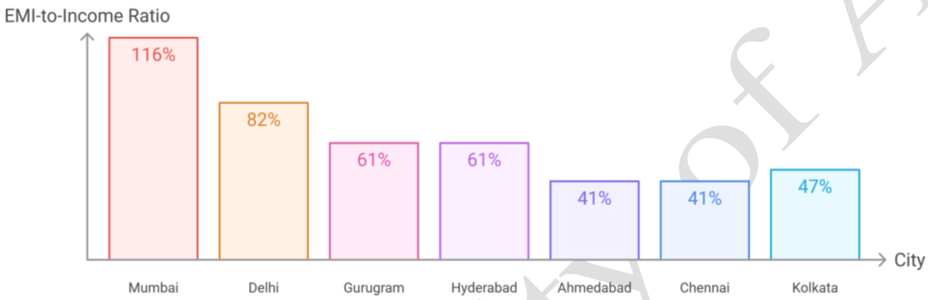
a) **EMI-to-Income Ratio:** 41%

b) **Explanation:** Chennai also offers a more balanced ratio with 41%, indicating a relatively better affordability compared to most other metros.

9.7 Kolkata

a) **EMI-to-Income Ratio:** 47%

b) **Explanation:** Kolkata has a slightly higher EMI-to-Income ratio of 47%, but still remains more affordable compared to cities like Mumbai and Delhi.

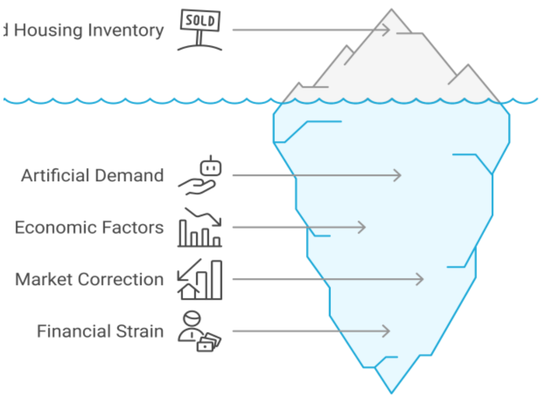


EMI-to-Income Ratios in Major Indian Cities

The EMI-to-Income Ratio analysis indicates a wide disparity in housing affordability among principal Indian cities. While Mumbai and Delhi pose serious challenges for inhabitants, Ahmedabad and Chennai provide relatively more manageable ratios, suggesting a softer balance between income and housing. Knowing these ratios is essential for prospective homebuyers and policymakers who want to tackle the urban housing affordability problem in India.

10. ARTIFICIAL DEMAND

Most developers and constructors employ clever tactics to create the illusion of high market demand. A common practice is to reserve flats or units in the name of fake persons or dummy companies, frequently friends, relatives, or dummy companies. This creates the illusion that numerous properties are sold, though they are not. They also slow down by putting all units on the market, telling people “Only a few remain," which makes buyers believe they will lose out (this is referred to as creating urgency or FOMO – fear of missing out). In others, they put up unrealistic price increases or flash sales to pressure people into purchasing. These bogus signals create the illusion that housing prices will continue to increase even when actual demand is weak. This artificial demand maintains prices high and creates the impression of a thriving market, which can deceive true homebuyers.



11. WEAK REGULATING SYSTEM

In India, the real estate sector has traditionally lacked robust regulatory oversight because it was treated as part of the unorganized sector for decades. In contrast to other industries, real estate transactions had cash elements and, hence, were susceptible to black money, benami dealings, and tax evasion. Further, varying land laws in different states created confusion and inconsistency throughout the nation. The lack of a central regulator before RERA led to widespread problems, including project delays, false assurances by developers, illegal construction, and land disputes. For instance, in Noida and Greater Noida, numerous homebuyers were affected when developers such as Amrapali and Jaypee Infratech failed to deliver thousands of flats on time, leaving buyers financially stuck with home loans without possession. These operational issues emerged primarily due to ineffective enforcement, a lack of accountability, and insufficient legal protection for consumers. While RERA has been a significant step in the right direction, complete implementation and stringent enforcement remain issues in most states.

12. BUILT ON BLACK

The Indian real estate industry, despite its potential to fuel economic growth, is plagued by corruption, tax evasion, and the inflow of black money. Behind this anomaly lies a deeply entrenched system of bribery among developers, politicians, and regulatory agencies. Project approvals are secured through bribes, land grabs are carried out illegally, and permits are manipulated, allowing developers to circumvent building norms and delay project delivery. These practices not only artificially inflate property prices but also undermine consumer confidence, driving genuine buyers out of business. One of the most significant loopholes in this ecosystem is the gap between the circle rate (the official valuation of property as declared by the government) and the market rate. Deals are frequently shortchanged at the circle rate, and the remaining money is paid in cash, resulting in colossal tax evasion. This deficit fuels the use of black money, as large sums of unaccounted-for funds are channeled into property to legalize it in the long run. Property prices are thus inflated by speculative, anonymous investment rather than by genuine end-user demand. This also promotes land hoarding, reduces transparency, and causes a false housing shortage. The over-reliance on black money not only drives up prices but also exposes the sector to crashes whenever there are regulatory or economic shocks. Thus, short of structural reforms, clean digital transactions, and more rigorous enforcement of tax codes, the Indian real estate industry can become ever more unaffordable and volatile for the common man.

13. CONCLUSION

India's real estate industry is at a turning point, on the brink of a severe crisis if the current trend continues unabated. The unusually high Price-to-Income (P/I) and EMI-to-Income ratios signal that housing is becoming unaffordable for the typical Indian. Despite low end-user demand, prices continue to escalate, mainly due to artificial demand from developers, speculative buyers, and the uncontrolled inflow of black money into the industry. The lack of strong regulation and openness has permitted these problems to simmer, distorting the fundamental market dynamics. One of the most biting warnings is rising Price-to-Income (P/I) ratios in India's large cities. Mumbai's P/I ratio is a staggering 14.3, and Delhi's is at 10.1—well above those of established world cities like New York (10.0), London (8.5), and Paris (7.3). While these Indian cities have significantly lower average incomes than their developed-world counterparts, housing prices have risen disproportionately, making homeownership an unaffordable dream for the vast majority of the population. Compared to world cities, where better regulatory systems, improved public infrastructure, and more balanced mortgage systems ensure a better balance between housing costs and income levels, India's market is marked by speculative buying, poor urban planning, and regulatory failures that have driven unsustainable price inflation. The affordability crisis is also reflected in the EMI-to-Income levels: Mumbaikars would need to shell out a preposterous 116% of their monthly salary for loan repayment, and in Delhi, it would be 82%—levels indicating severe financial stress for potential homebuyers. These unsustainable levels of debt are a guaranteed recipe for mass defaults during adverse economic times.

At the same time, the rampant seepage of black money, corruption, and skewed circle rates has seriously eroded the real estate ecosystem. Rather than housing serving a fundamental human need, property has become an increasingly speculative investment tool, displacing real homebuyers and subjecting the industry to extreme volatility. Even after the introduction of RERA, enforcement remains weak and uneven across states. Cases such as delayed projects and breached promises by developers (e.g., Amrapali and Jaypee Infratech in Noida) indicate that buyers' interests are still not adequately safeguarded. Furthermore, the practice of unsecured housing loans for house purchase—particularly among young aspirational buyers—has raised concerns about the health of the banking and NBFC sectors. Overall, India's real estate sector is issuing clear warning signs. Unless these structural flaws—namely, the affordability gap, speculative demand, regulatory failure, and the supply of black money—are addressed urgently, the country is likely to suffer a housing crash with ruinous consequences for the broader economy. Reforms must be aimed at re-establishing affordability, financial transparency, and regulatory enforcement, and at developing real demand rather than speculation. Failing timely corrective action, India can go the same way as the U.S. housing crisis of 2008.

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